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13 February 1985

MEMORANDUM FOR THE RECORD

SUBJECT: VIP Membership Funds

25X1 1. In reviewing membership trends, as discussed at the VIP Board meeting
25X1 on 9 January 1985, I met with both [] VIP Admin Assistant and
[] VIP Accountant. It became apparent from these meeting that VIP
record keeping is extremely manual intensive and requires considerable
personal effort to answer even the easiest of questions about VIP. Except for
the quarterly financial statements that are now prepared, there has been no
reporting on VIP membership and related trends or comparisons. Thus, the
results of my review reflect somewhat the lack of a good base of information
from which we can begin to follow and predict such trends. ✓

25X1 2. My review focused on three areas of concern. The first (Section 1 on
25X1 the attachment) concerned how many members are currently active in VIP via
25X1 payroll deductions or otherwise making contributions to the plan. []
[] indicated that at the close of pay period 2 (5 Jan 1985) there were
[] active VIP members of whom some [] were not contributing to VIP. This
is caused, in some instances, by employees going overseas and allotting their
net pay to the credit unions, without first taking into account VIP
deductions. The number of cases in this category is not thought to be
significant. We believe some VIP deductions are being wiped out inadvertently
by instructions for pay to be deposited as "net-to-credit union". To remedy
this situation we may wish to review the Central Processing financial
briefings given to employees preparing for overseas assignments.

25X1 3. A second area of review (II on the attachment) was to look at the
25X1 grade level of VIP membership. Here I used a report prepared for the Director
of Personnel in October 1984. I then compared the [] new VIP members that
signed up in 1984 to see how the annual mix of new members compared with the
total membership in October. The trend shows that we are picking up more
lower grades than the membership norm, which is a positive sign.
25X1 Unfortunately in 1984 we signed up [] new members which [] withdrew their
funds, thus the trend projects no future membership growth at this time.

25X1 4. The third area of review is the age of the membership (Section III of
the attachment). We should continue to review these figures on a quarterly
basis to see if we are making headway in attracting to the VIP new personnel
that enter on duty (EOD). I believe we need to do more to advertise VIP in
order to attract new members in order to reach a better mix between old and
new members. ✓

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In addition, I believe that we need to do more to make our employees aware of VIP, including regular participation in briefing new EOD personnel on a regular basis about the benefits that VIP. Also, a more aggressive employee awareness program should be considered to keep VIP in the lime light, similar to the credit union in announcing share and draft dividends via posters and the like.

5. In conclusion I believe the Board should review the figures noted in parts I and III of the attachment on a quarterly basis to keep pace with any significant changes in membership figures. Also, we should review ways to attract new members to VIP including those mentioned in this paper and others including the treatment of contributions as a tax reduction. No further action will be taken pending Board review of this information on 13 February 1985.

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VOCABULARY

Defined Benefit Plan (DBP)

A retirement plan design that establishes a specific level of benefits upon retirement that are guaranteed by the employer.

The employer pays any additional costs needed to pay off future annuities at the promised level. Current CIARDS and CSRS use defined benefit plans.

A DBP permits definitive advance retirement planning based upon knowledge of future annuity levels.

Defined Contribution Plan (DCP)

A retirement plan design that establishes specific employee/employer contributions with a level of future benefits based only on what the investment of contributions has purchased. Since annuity levels are not guaranteed, the employer is not obligated to provide any additional funding.

This type of plan weakens the capacity for definitive advance retirement planning since future annuity levels cannot be predicted.

The risk of adverse economic experience is on the employee.

Capital Accumulation (Thrift) Plan (CAP)

A CAP is a supplementary contribution plan to augment the annuity produced by the basic retirement system plan.

CAPs are usually offered for optional participation by employees with or without full or partial matching contributions by the employer.

CAP employee voluntary contributions typically run from 2% to 6% of salary with employer matching 50% of the employee contribution.

Combined Funding

There are elements within both the Senate and House who can be expected to support integration of the future supplemental plan funding with existing federal civilian retirement funding on the premise that this will assure the future integrity of the existing retirement systems. In fact, statutory requirements assure the future integrity of current systems through future appropriations as required to pay defined benefits.

Combined funding of CIA's total annual retirement requirements within the Office of Personnel Management's government-wide appropriations would "low profile" the Agency's funding requirements. Separate administration and accountability of annual allocations for CIA's Civil Service and CIARDS funds could be handled internally within the Agency.

Replacement Income Rate (RIR)

The RIR is the percentage of final working year (or average of high three years, etc.) income that is replaced by the annuity when an individual retires.

Retirement income rates should be high enough to produce post retirement income levels for retirees that are sufficient to permit reasonable maintenance of pre-retirement life style.

Accrual Rate

The percentage of average annual salary (final annual, high three or high five) multiplied by the number of years of service to determine the percentage of working income that is to be replaced by the annuity. Example--2% accrual rate of the average of the high three annual salary multiplied by 25 years of service provides a 50% replacement rate of the high three average salary.

Indexing (COLA)

Increase of annuity levels relative to the amount of inflation. Full indexing would provide increases equal to the full inflation level.

Most good private sector plans tend to provide ad hoc partial indexing to offset impact of inflation.

Current federal civil retirement systems are now fully indexed but are subject to temporary provisions limiting the percentage of indexing or delay of effective dates for COLAs.

Percentage of Pay Roll (Cost)

Costs relative to retirement system contributions are portrayed in terms of percentages of the work force payroll. In the case of the federal Civil Service system, the government, in addition to employer/employee matching contributions, contributes payments to cover costs attributable to military service, increased benefits attributable to pay increases since 1969, and interest payments on the unfunded liability to slow its growth.

Portability

Employees participating in Social Security carry their creditable "covered" service to any employer required to carry Social Security. Similarly, most voluntary contributory "thrift" plans provide some form of portability for continued coverage under other plans of the carrier should a participant leave the services of the initial employer.

Front-End Loading

A methodology to provide for scheduling higher percentages or amounts of retirement plan annuity payments for the period between early retirement and eligibility for Social Security payments. When Social Security payments are payable, the benefit payments of the retirement plan would drop and be replaced by Social Security benefits to maintain the same level of continued income.

Social Security "Tilt"

Social Security is a national social insurance plan designed to supplement retirement income rather than a retirement system per se.

The benefit computation formulas are designed to redistribute contributions in the fund to provide a higher income replacement rate to low income people than proportionately to higher income individuals.

This "tilt" in the distribution of benefits also is applied to provide higher benefits without additional cost to married couples, families with dependent children, etc.

Unfunded Liability

Unfunded liability is the cost of a retirement system that is not funded from past contributions or other funding sources.

The current Civil Service system unfunded liability resulted from such things as insufficient government funding of the system for many years, COLA increases, crediting years of military service for which no contributions were made, etc.

Under current statute, the U.S. Government is the guarantor to assure that benefits earned under the provisions of the current Civil Service and CIARDS systems will be paid to participants in these systems.

Full Funding

A fully funded system is one where sufficient money is invested now so that principal and earnings plus future normal contributions for employee/employer will be sufficient to pay all future expenses of benefits for the present work force.

Both the Civil Service and CIARDS systems are, by statute, fully financed systems and are not "fully funded" systems. Fully financed systems require the identification of sources of funding that will provide funds to pay all future expenses of benefits for the present work force.